

Public and Private Debt in 1950

THE rise in total public and private debt during 1950 was \$38 billion—an amount far exceeding net additions to debt outstanding in any former peacetime or mobilization year. Unlike most other years in the past two decades, however, the expansion was almost wholly confined to the private debt category. Total net private debt amounted to \$245 billion on December 31, 1950, \$36 billion (or 17 percent) above net outstandings at the end of 1949. There was little change in the Federal Government debt position during the year, but a continuing addition was made to the outstanding obligations of State and local governments. As a result of the large increase in private debt, the proportion of total net debt represented by public obligations had declined to 49 percent at the end of 1950. (This proportion may be compared to the 65 percent reached during the war.)

The magnitude of the rise in private indebtedness during 1950 may be compared to changes in other measures of economic activity. The gross national product advanced from \$257 billion in 1949 to \$283 billion in 1950. More significantly, a comparison between the fourth quarters of 1949 and 1950 shows a rise of about one-fifth. Disposable personal income, plus retained corporate earnings in the fourth quarter of 1950 had expanded 20 percent above the fourth quarter of 1949 level of \$194 billion (annual rates).

In order to assess properly the significance of changes in the debt structure, complete balance sheet data would be necessary. However, the rapid growth in private indebtedness during 1950 may be viewed in connection with partial

indications of other balance sheet changes such as the year's growth of \$8 billion in liquid assets (cash, checking and savings deposits, and U. S. Government securities). Also, individuals and business made gross acquisitions of almost \$50 billion in new homes, plant and equipment, and additional business inventories.

The computed average interest rate on gross public and private debt remained stable from 1949 to 1950. A long-run comparison worth noting is that despite a debt aggregate more than 2½ times as great as in 1929, total interest payments are only one-fifth larger. Computed average interest rates on both public and private debt have been roughly halved since 1929.

Corporate liabilities lead expansion

Among the major components of private debt, the largest increase—both absolute and relative—occurred in corporate short-term liabilities. The rise in urban mortgage credit accelerated, while expansions of varying degree were recorded in other categories of private debt. An apparent exception in the case of farm production credit is explained by the lessened need for Commodity Credit Corporation price support loan activity during 1950 as a result of rising farm prices.

Federal debt rise delayed

The upturn in Federal Government net debt, initiated in 1949, was held to a negligible amount during 1950 and even reversed in the first six months of this year because of larger-than-expected revenues and the lag in actual defense expenditures. At the end of December 1950 Federal net debt amounted to \$219 billion; by the end of last June, a reduction of roughly \$3 billion had been accomplished. In the absence of adequate new revenue legislation, however, steadily increasing defense expenditures will necessitate deficit financing and additions to the public debt during the coming year.

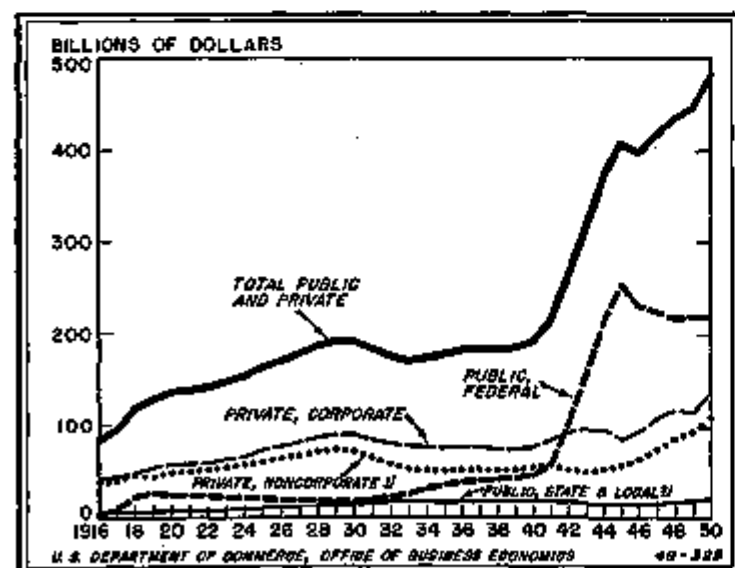
State and local government debt up

The increase of over \$2 billion in the net indebtedness of State and local governments was about evenly divided between the two government levels. The year's increase in State government debt can be traced to deficit operations reported by 40 States in 1950. This condition is primarily a reflection of increased commitments to local governments, large-scale highway and institutional construction, pay raises, higher material costs, and expanded public welfare assistance programs.

However, pressure of increased costs fell more heavily on the local levels of government where limited taxing authority handicapped the search for new sources of revenue. Consequently, local governments have pressed for increased State aid and enabling legislation which would expand their taxing powers. As a result of State response to local problems, the debt increase for States in fiscal year 1950 amounted to 35 percent, while only a 7 percent expansion was reported by local governments. Within the local government level,

NOTE.—MR. BONNELL AND MR. TURNER ARE MEMBERS OF THE NATIONAL INCOME DIVISION, OFFICE OF BUSINESS ECONOMICS.

Net Public and Private Debt, by Major Components, End of Calendar Year



† Data represent individual and noncorporate private debt.

‡ Data are for June 30 of each year.

Source of data: U. S. Department of Commerce, Office of Business Economics, based upon data from various governmental and private agencies.

Tables 1 and 2.—Public and Private Debt (Net and Gross), End of Calendar Year, 1945-50¹

(Billions of dollars)

End of year	Public and private, total	Public			Private								
		Total	Federal	State and local	Total	Corporate			Individual and noncorporate				
						Total	Long-term	Short-term	Total	Mortgage		Nonmortgage	
										Farm	Nonfarm ²	Farm ³	Nonfarm ³

Table 1.—Net Public and Private Debt													
1945	407.3	288.6	253.7	13.7	140.8	85.2	38.3	47.0	65.6	4.7	27.9	2.6	20.8
1946	398.6	243.3	229.7	13.6	155.6	83.5	41.3	52.2	62.0	4.8	33.6	2.8	20.0
1947	419.6	237.7	223.3	14.4	181.8	108.9	40.1	68.8	72.0	4.9	40.1	3.0	24.4
1948	435.3	232.7	216.5	16.2	202.6	117.8	52.6	65.3	84.8	5.1	46.6	3.6	27.7
1949	445.6	236.7	218.6	18.1	208.9	114.7	55.4	59.3	84.2	5.4	51.0	3.4	30.6
1950	464.0	239.1	218.7	20.4	244.9	135.0	68.2	70.8	100.9	5.8	61.1	3.1	33.0

Table 2.—Gross Public and Private Debt													
1945	404.2	309.2	292.6	16.6	165.0	99.6	45.3	64.2	55.5	4.7	27.9	2.6	20.5
1946	450.4	288.1	272.1	15.9	171.3	109.3	48.4	60.9	62.0	4.8	33.6	2.8	20.0
1947	487.7	296.6	289.8	16.8	201.1	128.2	55.0	73.2	72.0	4.9	40.1	3.0	24.4
1948	500.2	275.7	258.0	17.7	223.3	134.7	62.8	71.9	84.8	5.1	46.6	3.6	27.7
1949	510.7	287.0	268.1	20.9	229.7	138.5	60.4	60.1	84.2	5.4	51.0	3.4	30.6
1950	568.7	290.0	268.4	21.6	309.7	158.8	70.9	88.0	100.9	5.8	61.1	3.1	33.0

¹ Data for State and local governments are for June 30 of each year. Components will not necessarily add to totals because of rounding.

² Data are for noncorporate borrowers only. (See table 6.)

³ Comprises non-real-estate farm debt restricted for productive purposes and owed to institutional lenders (includes O. O. O. loans).

⁴ Comprises debt incurred for commercial (nonfarm), financial and consumer purposes, including debt owed by farmers for financial and consumer purposes.

Sources: U. S. Department of Agriculture, Bureau of Agricultural Economics; U. S. Department of Commerce, Bureau of the Census and Office of Business Economics.

the most marked rise occurred in the debt of school districts, reflecting primarily the construction of new facilities to provide for the increasing population in the school-age groups.

Corporate debt increase accompanies business expansion

At the end of 1950, total corporate net debt amounted to \$135 billion, \$20 billion more than a year earlier. Of this increase, about \$3 billion represented the net addition to long-term debt—a moderate expansion, considering the huge volume of new investment in plant and equipment during the year.

The remainder of the year's increase in net corporate debt—\$17 billion—represented expanded trade payables, short-term bank loans, Federal income tax liability, and miscellaneous liability and accrual accounts. Roughly one-third of the expansion was due to larger Federal income tax liabilities, occasioned not only by rising profits but also by higher tax rates and the excess profits tax imposed in the second half of the year. Another important factor was the growth in trade payables and inventory loans from banks accompanying the addition of \$7½ billion to corporate inventory holdings.

Despite the magnitude of corporate indebtedness at the end of 1950, aggregate indications point to a favorable financial condition. Corporate holdings of liquid assets are the highest on record, net working capital position is still improving, and the sustained volume of corporate profits after taxes has been sufficient to maintain a satisfactory dividend record and finance a substantial portion of investment and working capital requirements. Also, it is expected that any private financing difficulties in connection with the progressing defense program will be alleviated by direct or indirect Government assistance.

Nonfarm mortgage debt climbs steeply

A \$10 billion expansion, almost twice the 1949 increase, took place in the residential and commercial real estate mortgage field during 1950. The spectacular \$21 billion outlay for new private construction in 1950 was the culmination of a building boom made possible by the availability of materials, high incomes, large holdings of liquid assets, and exceptionally easy credit terms. Measures by the Federal Government to restrain inflationary pressures and reduce the volume of nonessential construction have affected real estate credit in 1951.

Table 3.—Gross and Net Federal Government Debt, End of Calendar Year, 1945-50

(Millions of dollars)

End of year	Gross debt							Duplicating debt						Net debt		
	Federal Government and Federal agency, total	Federal Government					Federal agency ²	Federal Government securities held by Federal agencies and trust funds	Federal agency securities ¹				Federal Government and Federal agency, total	Federal Government	Federal agency	
		Total	Interest bearing			Non-interest bearing ¹			Total	Held by U. S. Treasury	Held in Federal trust funds	Held by other Federal agencies				
			Total	Public issues	Special issues											
1945	292,600	275,114	275,093	255,693	20,000	2,421	14,485	30,887	27,041	12,816	11,776	(³)	1,041	252,742	231,072	1,669
1946	272,147	259,139	257,040	233,044	24,585	1,800	12,008	42,306	30,913	11,485	10,808	(³)	702	220,740	222,236	1,513
1947	380,753	256,906	254,206	228,230	28,965	2,805	12,593	40,435	34,962	12,082	11,840	(³)	243	225,318	222,643	770
1948	257,004	252,806	250,580	233,300	31,714	2,230	8,194	41,610	27,317	4,192	3,865	(³)	240	214,484	215,453	1,031
1949	260,067	257,136	255,019	231,128	33,686	2,111	8,837	47,483	36,940	8,137	7,904	(³)	833	218,584	217,784	800
1950	280,419	256,708	254,283	230,670	33,707	2,425	9,707	47,733	35,197	8,510	8,470	(³)	40	218,702	217,611	1,091
1951 (June 30)	(⁴)	253,222	252,852	216,190	34,063	2,370	(⁴)	40,066	(⁴)	(⁴)	8,007	(⁴)	(⁴)	214,264	(⁴)	(⁴)

¹ Includes matured debt on which interest has ceased.

² Bonds, debentures, and notes payable, including securities held by the U. S. Treasury.

³ Bonds, debentures, and notes payable.

⁴ Less than \$500,000.

⁵ Not available.

Sources: U. S. Treasury Department.

Table 4.—Gross and Net State and Local Government Debt, June 30, 1945-50

(Millions of dollars)

End of fiscal year	Gross debt							Duplicating debt ²						Net debt			
	State and local, total ¹	State	Total	Local				State and local, total	State			Local			State and local, total	State	Local
				County	City and township	School district	Special district		Total	Sinking funds	Trust, etc., funds	Total	Sinking funds	Trust, etc., funds			
1945	16,589	2,425	14,164	1,545	8,399	1,303	2,057	2,304	1,046	176	871	1,319	900	638	13,725	1,370	12,355
1946	16,932	2,358	13,574	1,417	8,207	1,288	2,087	2,349	754	242	822	1,283	800	726	13,573	1,604	11,969
1947	16,835	2,978	13,857	1,483	8,275	1,355	2,794	2,428	804	344	860	1,324	800	724	14,397	2,174	12,223
1948	17,702	3,722	14,080	1,408	9,135	1,580	2,977	2,470	851	364	887	1,325	847	778	16,238	2,371	13,867
1949	20,275	4,034	16,241	1,603	9,906	2,147	3,287	2,730	970	351	829	1,758	868	889	18,149	3,064	15,085
1950	23,647	5,223	18,424	1,543	10,444	2,710	3,631	3,200	1,190	290	940	2,070	983	1,085	20,387	4,183	16,204

¹ Includes State loans to local units.² Comprises State and local government securities held by State and local governments.

Source: U. S. Department of Commerce, Bureau of the Census and Office of Business Economics.

Table 5.—Gross and Net Corporate Debt, End of Calendar Year, 1945-50

(Millions of dollars)

End of year	All corporations					Railway corporations					Nonrailway corporations				
	Total	Long-term ¹	Short-term ¹			Total	Long-term ¹	Short-term ¹			Total	Long-term ¹	Short-term ¹		
			Total	Notes and accounts payable	Other			Total	Notes and accounts payable	Other			Total	Notes and accounts payable	Other
	Gross Corporate Debt														
1945	99,523	45,321	54,202	25,718	28,484	15,411	11,874	3,637	881	3,056	84,112	33,447	50,665	24,827	25,838
1946	109,209	49,435	59,774	31,007	28,767	13,714	10,977	3,537	790	2,038	95,678	37,558	58,120	30,808	27,312
1947	126,167	54,588	71,579	37,676	33,903	14,173	11,169	3,005	904	2,100	115,994	44,819	71,175	30,772	33,393
1948	138,739	62,906	75,833	39,340	36,491	15,066	11,134	3,971	872	1,969	124,743	51,984	72,759	35,477	34,282
1949	154,414	64,272	90,142	35,033	35,408	15,710	11,244	2,460	709	1,097	121,704	55,128	66,576	34,904	31,672
1950	168,846	60,915	107,931	44,505	44,440	15,927	12,683	2,045	913	1,131	144,933	59,473	85,460	42,092	43,368
	Duplicating Corporate Debt														
1945	14,331	6,909	7,422	4,204	3,218	1,483	1,098	368	124	202	12,748	5,900	6,848	4,140	2,708
1946	15,784	7,032	8,752	4,250	4,502	1,607	1,407	340	111	226	13,847	6,826	7,021	5,143	3,177
1947	19,276	8,005	11,271	5,247	6,024	1,489	1,172	327	120	201	17,770	7,730	10,040	6,131	3,909
1948	20,076	10,222	10,854	5,636	5,218	1,494	1,205	281	121	170	18,478	9,117	10,361	6,414	3,947
1949	20,786	10,540	10,246	5,818	4,428	1,486	1,224	262	107	155	19,300	9,724	9,576	6,812	3,764
1950	23,022	11,741	11,281	7,294	4,987	1,623	1,326	296	127	169	22,299	10,419	11,880	7,267	4,613
	Net Corporate Debt														
1945	85,192	38,412	46,780	21,514	25,266	13,928	10,776	3,161	757	2,304	71,300	27,547	43,753	20,687	23,122
1946	93,425	41,543	51,882	26,757	25,128	12,107	10,410	2,407	688	1,809	80,031	30,633	49,398	26,733	22,675
1947	106,891	46,186	60,705	31,429	29,276	12,694	9,907	2,697	778	1,899	96,984	34,086	62,898	30,661	26,468
1948	117,763	52,650	65,113	32,914	32,200	12,400	9,010	2,590	781	1,826	105,253	42,507	62,746	32,068	30,684
1949	133,632	55,423	78,209	29,714	28,561	13,224	12,030	2,204	602	1,542	121,430	45,040	76,390	39,065	37,325
1950	154,058	58,174	95,884	37,111	30,083	13,304	13,055	2,749	750	1,603	122,604	46,619	75,985	38,325	37,600

¹ Long-term debt is defined as having an original maturity of 1 year or more from date of issue; short-term debt as having an original maturity of less than 1 year.

Source: U. S. Treasury Department, Bureau of Internal Revenue; Interstate Commerce Commission; U. S. Department of Commerce, Office of Business Economics.

Life insurance companies were the greatest single source of funds in 1950—expanding mortgage portfolios by \$3 billion. Mutual and commercial banks together added \$3.5 billion to their holdings, while savings and loan associations, the largest single holders of 1-4 family residential mortgages, increased their investments by \$2.1 billion.

Farm debt continues upward

The postwar farm mortgage debt increase continued through 1950 at an accelerating pace; the 8 percent expansion during the year raised the total outstanding to \$5.8 billion. Factors in the farm mortgage market in 1950 were increased turnover (indicated by an upturn in the volume of farm sales and mortgage recordings) and higher prices for farm land. An important limitation in new debt formation is the strong income and liquid asset position of farmers—approximately 40 percent of farm sales in 1950 were on an all-cash basis. Forced mortgage liquidation by foreclosure or involuntary sales remained at a low level.

A total of \$6.1 billion in production loan credit was outstanding against farmers at the close of 1950, reflecting a

5 percent decline from the previous year. Excluding Commodity Credit Corporation loans and guarantees, the remainder represents the credit extended to farmers and cooperatives by commercial banks and farm credit agencies. These outstandings advanced from \$4½ billion at the close of 1949 to over \$5 billion in 1950, rising 16 percent.

Commodity Credit Corporation loans and guarantees are not debt in the usual sense, since the loans are nonrecourse in form and arise in connection with price-support activity by the Government. Price-support loans outstanding dropped \$1 billion during 1950, reflecting higher prices for farm products.

The Bureau of Agricultural Economics estimates that farm consumer indebtedness totaled about \$2½ billion at the close of 1950 (such credit is included in the consumer debt category in this study). Short-term debt for both consumption and production purposes climbed noticeably as farmers made larger use of credit in financing such working capital assets and durable goods as machinery and equipment, motor vehicles, building materials, livestock, and home furnishings and equipment.

Noncorporate commercial debt shows marked gain

In the noncorporate, nonfarm sector, commercial debt rose 27 percent above the 1949 level in registering a \$2 billion gain. This series (table 7) represents bank commercial and industrial loans to noncorporate businesses, overdrafts, and loans to institutional borrowers. (Trade payables carried on the books of noncorporate business firms are not included because of the lack of basic data.)

Generally speaking, noncorporate businesses use short-term borrowings primarily to finance working capital requirements. In this regard it is interesting to note that a \$1.6 billion debt addition was accompanied by a \$2.7 billion expansion in inventory book value. Institutional borrowers (building and loan associations, credit unions, clubs, churches, etc.) also made sizable additions to their short-term debt in 1950.

Security loans rise

Loans to purchase or carry securities mounted rapidly during 1950, reaching \$4.2 billion at the end of the year (an increase of 20 percent). This rise in security loans outstanding can be attributed to buoyant market conditions and the low margin requirements in force during most of 1949 and all of 1950. While the expansion during 1950 was quite rapid, the total at the end of the year was still only about half of the level reached in 1945.

Loans by banks on stock collateral and extension of credit by brokers and dealers are controlled by the Board of Governors of the Federal Reserve System under regulations U and T. As part of a flexible credit control program, the Board of Governors raised margin requirements to 100 percent in January 1948, in order to curb speculative activity in

the face of postwar inflationary tendencies. In the ensuing year outstanding loans were cut in half. As inflationary pressures abated, margin requirements were dropped to 75 percent in 1947 and lowered to 50 percent in 1949. Early this year and in line with a more stringent credit policy, the Board reimposed the 75 percent requirement.

Policy loans of life insurance companies increased during 1950, bringing total loans at \$2.4 billion up 24 percent from the \$1.9 billion outstanding at the beginning of the postwar period. This expansion has been attributed to increased policy ownership and larger accumulated loan values, rather than to any significant increase in distress borrowing. Larger repayments of old loans have of course been an offsetting factor. New policy loans in 1950 totaling \$518 million were substantially offset by repayments and maturity retirements of \$344 million.

Consumer credit continues upward

Expanding for the seventh successive year, consumer credit reached \$20 billion in 1950, registering a 20 percent gain over the previous year. The \$3½ billion added to consumer debt during 1950 was the largest absolute gain ever recorded. Installment credit increased 24 percent during the year, while the remaining forms of consumer credit advanced 12 percent.

Federal Reserve Board control of consumer installment credit was reinitiated in September 1950 and stricter terms announced a month later (Regulation W). The purpose of the regulation was to assist in the moderation of inflationary pressures and the proper allocation of production in a mobilization period. In terms of ability to pay, there is little doubt that consumers in the aggregate are well able to carry their current obligations. The present level of consumer credit outstanding is about one-tenth of disposable personal

Table 6.—Nonfarm Mortgage Debt by Borrowing and Lending Groups, by Type of Property, End of Calendar Year, 1945-50¹

(Millions of dollars)

End of year	Residential and commercial			1-4 family residential							Multifamily residential and commercial				
	Total	Corporate borrowers ²	Noncorporate borrowers	Total	Savings and loan associations	Life insurance carriers	Mutual savings banks	Commercial banks	H.O.L.C.	Individuals and others	Total	Life insurance carriers	Mutual savings banks	Commercial banks	Individuals and others
1945.....	31,084	2,830	27,884	16,053	5,376	1,268	1,891	2,373	832	6,400	12,031	3,002	2,308	1,378	4,745
1946.....	27,074	4,422	33,552	24,452	7,148	2,570	2,033	4,573	634	7,500	13,522	3,790	2,360	1,960	5,973
1947.....	45,248	5,135	40,113	29,880	8,956	3,459	2,237	6,292	494	8,580	15,306	4,321	2,591	2,331	0,124
1948.....	52,419	5,847	46,372	35,131	10,306	4,926	2,742	7,380	369	9,410	17,236	4,918	3,031	2,039	0,700
1949.....	58,379	6,515	51,664	39,108	11,616	5,070	3,190	7,941	231	10,190	10,271	5,798	3,479	2,795	7,200
1950.....	68,518	7,452	61,066	40,041	12,725	5,392	3,850	9,404	10	11,500	21,577	6,375	4,308	3,231	7,000

¹ The data represent mortgage loans on commercial and residential property, and exclude real estate mortgage bonds. Multifamily and commercial property mortgages owned by corporations and held by other nonfinancial corporations are also excluded.

² The corporate mortgage debt total is included in the total corporate long-term debt outstanding, table 5.

Sources: Federal Savings and Loan Insurance Corporation; U. S. Department of Commerce, Office of Business Economics.

Table 7.—Individual and Noncorporate Debt, End of Calendar Year, 1945-50

(Millions of dollars)

End of year	Farm and nonfarm total	Farm			Nonfarm							
		Total farm	Farm mortgage ¹	Farm production loans ²	Total non-farm	Nonfarm mortgage			Other			
						Total	1-4 family	Multifamily and commercial	Total	Commercial (non-farm)	Financial ³	Consumer
1945.....	55,532	7,172	4,693	2,480	48,360	27,834	12,070	8,184	20,476	4,437	10,412	5,627
1946.....	61,005	7,632	4,777	2,755	54,403	33,342	13,229	10,323	20,911	4,273	8,001	6,637
1947.....	72,801	8,428	4,833	3,595	64,403	40,113	13,381	11,732	24,330	7,026	4,885	11,943
1948.....	84,841	10,413	5,108	5,305	74,228	40,572	13,374	13,196	27,656	5,067	3,203	14,386
1949.....	94,200	11,584	5,487	6,097	82,330	41,854	17,123	14,711	30,480	7,832	3,045	18,596
1950.....	100,041	11,977	5,828	6,149	92,064	61,066	24,264	16,472	36,808	8,077	7,124	21,597

¹ Includes regular mortgages, purchase-money mortgages, and sales contracts.

² Includes agricultural loans to farmers and farmers' cooperatives by institutional lenders; farmers' financial and consumer debt is included under the "nonfarm" categories.

³ Comprises debt owed to banks for purchasing or carrying securities, customers' debt to brokers, and debt owed to life insurance companies by policyholders.

Sources: U. S. Department of Agriculture, Bureau of Agricultural Economics; Board of Governors of the Federal Reserve System; U. S. Department of Commerce, Office of Business Economics.

income (personal income after income taxes and other payments to Government), and one-eighth of personal holdings of liquid assets.

TECHNICAL NOTE

The concepts employed in this study were fully discussed in the article published in the October 1950 issue of the Survey, page 13. The adjustments for duplication are self-explanatory in tables 3 and 4; duplicating corporate debt (table 5) is confined to debt owed to other members of an affiliated system. The reader is also referred to the same source for estimates for years prior to 1945.

The Business Situation

(Continued from p. 12)

overall deficit of the ERP countries with the United States from rising as fast as the increased requirements would otherwise suggest.

A geographic breakdown of these developments discloses that while a large part of the additional dollar requirements are originating in the United Kingdom, the increased dollar expenditures by the United States are more likely to benefit the European continent.

Government aid to Europe, other than military, increased slightly from the preceding quarter. The second quarter disbursements of \$600 million were at a considerably higher rate, however, than the amounts likely to be disbursed during the current year from unexpended (but allocated) funds from previous years' appropriations and the new appropriations authorized by the House and Senate. Consequently, the aid disbursements are likely to decline soon below the second quarter rate of the deficit on goods and services other than military of nearly \$2 billion.

Thus, new adjustments in the transactions between Europe and the United States will be required as economic aid is reduced, and alternative means of securing goods are developed.

Increased outflow of capital finances Canadian deficit

The rising surplus on goods and services with Canada was financed largely by an increased outflow of private United States capital. Most of this increase consisted of loans and was induced by credit restrictions and the resulting rising interest rates in Canada, which led borrowers in that country to look to the United States for funds. Since these credit restrictions can also be expected to reduce the demand for imports from the United States, the Canadian deficit can be expected to decline and the form of financing which was available during the second quarter may not have to be relied upon in the future.

Large military purchases by Canada in the United States, unless they are offset by similar purchases by the United States in Canada, may prevent this favorable development.

Latin American deficit less basic

The Latin American deficit, aside from that part which is caused by the lower imports of coffee during the second quarter, does not appear to be so basic as that of Europe. Latin America has been a major beneficiary of the large rise in demand for, and prices of, raw materials and foodstuffs in the past year, and even the price declines during the last months are unlikely to affect the total dollar earnings of these countries. The rise in United States exports, particularly to countries which recently relaxed exchange restrictions, may continue so long as the goods are available here or until such higher exports again induce exchange stringencies. It is not impossible, however, that even in some of these countries inventories of imported goods will accumulate before a

Estimates for 1945 through 1949 as published in the October 1950 issue have been revised in the present article because of revisions in the Federal Savings and Loan Insurance Corporation series for mortgage debt on 1-4 family nonfarm homes and in the Federal Reserve Board series for consumer credit outstanding. Neither of these revisions, which run back to 1929 in each instance, have been incorporated in the present series prior to the year 1945. In the case of the F. R. L. I. O. revision, the effect upon the debt components in tables 1 and 2 is negligible; in the case of the F. R. B. revision, only a matter of classification in table 7 is involved (single-payment loans of over \$5,000 by commercial banks have been excluded from consumer credit and added to unincorporated financial and commercial debt). Other revisions for recent years have resulted from the incorporation of additional basic data.

tightening of exchange restrictions becomes necessary, thus inducing a "normal," or market, decline in the demand for imports from the United States.

Sterling area may have small deficit

It appears that all the expected changes in exports, imports and Government aid will result in a decline of the surplus on goods, services, and unilateral transfers of the sterling area with the United States, which amounted to \$1 billion at an annual rate during the first half of 1951, or may even create a small deficit. Additional dollar requirements arising from purchases in Canada, Cuba, and other dollar countries and from purchases of oil produced abroad by American companies will accentuate these changes in the dollar account of the sterling areas.

As in the previous experiences with rising disequilibrium in the dollar transactions of the sterling area, the known transactions directly with the United States do not altogether explain the intensity of the development. Quite regularly at such occasions the unaccounted-for payments by the sterling area rise rapidly. From the first to the second quarter of 1951, these transactions by the sterling area rose from net dollar receipts of about \$156 million to net payments of \$223 million. This compares with a net increase in the errors and omissions in the United States balance of payments with all countries by only \$60 million. A large part of this shift in the unexplained transactions of the sterling area may be due to the decline in United States purchases of wool, rubber, and tin from the first to the second quarter, which are not reflected in the actual import figures since the latter lag several months behind the purchases.

Another part may reflect hidden capital movements, although there do not appear to have been any particular reasons during that period for major shifts of capital to the United States.

More likely, however, are increased dollar payments against sterling to other countries which—as happened in 1947—required increased dollar resources to facilitate larger purchases in this country as long as the opportunity for such purchases was favorable. If this is the case, it would indicate again the sensitivity of the British dollar reserves to developments of the balance of payments in the rest of the world—not only the sterling area—resulting from the large liquid sterling assets held by countries outside the sterling area as monetary reserves and commercial working balances.

Unlike in 1947 and 1949, when the change in the balance of payments of the sterling area with the United States reflected a substantial increase in the deficit of the sterling area, the change is now from a large surplus to a position not far from balance. Furthermore, rising supply stringencies in the United States may again reduce exports to the sterling area countries and curtail the demand for dollars by other countries. In fact, the continued high imports by the United States coupled with a rising scarcity of goods available for commercial exports may create in the not too far distant future a new surplus in the balance of payments of foreign countries with the United States, enabling them again to build up their gold and dollar reserves.